

CITY OF HARLAN

**INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2010

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**CITY OF HARLAN
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Gary H. Christiansen	Mayor	December, 2009
Dave Miller	Mayor pro tem	December, 2011
Aaron Anliker	Council Member	December, 2009
Rhonda Brown	Council Member	December, 2011
Keith Kaufman	Council Member	December, 2009
David Pedersen	Council Member	December, 2011
Orv Roecker	Council Member	December, 2009
Terry Cox	City Administrator	Indefinite
Susan Lambert	City Clerk	Indefinite
Marjorie Ahrenholtz	City Treasurer	Indefinite
Joseph Lauterbach	City Attorney	Indefinite
(After January 2010)		
Gary H. Christiansen	Mayor	December, 2011
Dave Miller	Mayor pro tem	December, 2011
Aaron Anliker	Council Member	December, 2013
Rhonda Brown	Council Member	December, 2011
Keith Kaufman	Council Member	December, 2013
David Pedersen	Council Member	December, 2011
Orv Roecker	Council Member	December, 2013
Terry Cox	City Administrator	Indefinite
Susan Lambert	City Clerk	Indefinite
Marjorie Ahrenholtz	City Treasurer	Indefinite
Joseph Lauterbach	City Attorney	Indefinite

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

September 2, 2010

Independent Auditor's Report

Lonnie G. Muxfeldt
Certified Public
Accountant

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To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Harlan's management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the Harlan Municipal Utilities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and my opinion, insofar as it relates to the amounts included for the Harlan Municipal Utilities, is based on the report of the other auditors.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, based on my audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued . . .

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Iowa Society of CPA's and AICPA Private Companies Practice Section

In accordance with *Government Auditing Standards*, I have also issued my report dated September 2, 2010 on my consideration of the City of Harlan's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 9, and 31 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally in inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Harlan's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which are prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


M. J. J. Associates, CPA, P.C.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

As management of the City of Harlan, Iowa we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the City's basic financial statements. The City's financial statements include three components: 1) a cash basis government-wide financial statement, 2) cash basis fund financial statements, and 3) notes to the financial statements.

Government-wide financial statement: This statement consists of a Statement of Activities and Net Assets and provides information about the activities of the City as a whole and presents an overview of the City's finances.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has two kinds of funds.

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Tax, and Urban Renewal Tax Increment, 3) Debt Service Fund, and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The Internal Service Fund is used to accumulate resources and allocate costs of the City's self-funded health insurance plan.
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two sewer funds for current operations and future sewer projects. Also included with Enterprise Funds is the activity of Harlan Municipal Activities. All three are considered major funds of the City.

A reconciliation between the government-wide statement and the fund financial statement follows the fund financial statements.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

ANALYSIS OF SIGNIFICANT CHANGES IN FINANCIAL POSITION AND NET ASSETS

Net assets may serve over time as a useful indicator of financial position. The cash basis net assets of the City's governmental activities decreased \$51,535 or 5 percent from the prior fiscal year end balances. Changes in the cash basis net assets of the City's governmental activities are as follows:

Changes in Net Assets of Governmental Activities			
		Year ended June 30,	
		2010	2009
Receipts:			
Program receipts:			
Charges for services	\$	1,886,924	\$ 1,961,133
Operating grants, contributions and restricted interest		544,002	700,360
Capital grants, contributions and restricted interest		563,934	1,280,168
General receipts:			
Property tax		1,497,453	1,412,877
Tax increment financing		611,180	517,593
Debt service		294,326	313,267
Local option tax		385,651	409,136
Hotel / motel tax		41,768	35,725
Unrestricted investment earnings		4,762	19,281
Miscellaneous		33,221	36,403
Bond proceeds		-0-	528,410
Sale of assets		26,901	9,932
Transfers, net		418,034	293,423
Total receipts		<u>6,308,156</u>	<u>7,517,708</u>
Disbursements:			
Public safety		949,364	983,002
Public works		1,106,564	1,132,733
Community and economic development		235,494	211,368
Culture and recreation		800,439	833,871
General government		483,744	465,307
Debt service		649,844	1,124,564
Capital projects		993,567	2,947,130
Nonprogram		1,140,675	1,023,823
Total disbursements		<u>6,359,691</u>	<u>8,721,798</u>
Increase (decrease) in cash		(51,535)	(1,204,090)
Net assets, beginning of year		<u>1,002,570</u>	<u>2,206,660</u>
Net assets, end of year	\$	<u>951,035</u>	\$ <u>1,002,570</u>

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

The cash basis of the net assets of the City's business type activities increased by \$7,957,436 or 57 per cent during the fiscal year ended June 30, 2010. The following is the changes in the cash basis of the net assets of the City's business type activities:

Changes in Net Assets of Business Type Activities			
Year ended June 30,			
	2010		2009
Receipts:			
Program receipts:			
Charges for services and sales:			
Sewer	\$ 743,517	\$	732,287
HMU Component unit	13,259,166		12,824,151
Operating grants, contributions, and restricted interest	89,520		268,880
Capital grants, contributions, and restricted interest	-0-		-0-
General receipts:			
Unrestricted interest	248		917
Miscellaneous	202,677		356,510
Loan proceeds	10,545,000		23,515
Transfers, net	(418,034)		(293,423)
Total receipts	<u>24,422,094</u>		<u>13,912,837</u>
Disbursements:			
Sewer	603,795		578,240
HMU Component unit	15,860,863		12,555,907
Total disbursements	<u>16,464,658</u>		<u>13,134,147</u>
Increase (decrease) in cash	7,957,436		778,690
Net assets, beginning of year	<u>13,925,134</u>		<u>13,146,444</u>
Net assets, end of year	\$ <u>21,882,570</u>	\$	<u>13,925,134</u>

ANALYSIS BETWEEN ACTUAL AND BUDGET AMOUNTS

The City amended its budget on May 18, 2010. The amended budget increased revenue by \$1.6 million and decreased disbursements by approximately \$3 million, the majority of which decreased business type disbursements for the year ended June 30, 2010. Actual disbursements exceeded budgeted amounts in the community and economic function for the year ended June 30, 2010.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

DEBT ADMINISTRATION

Outstanding Debt at Year-End		
	2010	2009
General obligation bonds	\$ 4,635,000	\$ 5,085,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$4.6 million is significantly below its constitutional debt limit of \$12.3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Harlan's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates, and fees that will be charged for various City activities. Amounts available for appropriation in the operating budget are \$31.7 million, a decrease of \$2.7 million over the final 2010 budget. Budgeted disbursements are expected to increase by \$10 million, an increase of 41 percent over the final 2010 budget. Most of the increase is a result of capital project delays at Harlan Municipal Utilities.

If these estimates are realized, the City's budgeted cash balances are expected to decrease by approximately \$4.9 million by the end of fiscal year 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Susan Lambert, City Clerk, 711 Durant Street, Harlan, Iowa.

CITY OF HARLAN

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions, And Restricted Interest	Capital Grants, Contributions And Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 949,364	\$ 83,489	\$ 20,145	\$ -0-
Public works	1,106,564	308,677	489,967	-0-
Community and economic dev	235,494	-0-	-0-	-0-
Culture and recreation	800,439	188,977	33,890	10,397
General government	483,744	339,355	-0-	-0-
Debt service	649,844	-0-	-0-	-0-
Capital projects	993,567	-0-	-0-	553,537
Nonprogram - contractual services	1,140,675	966,426	-0-	-0-
Total governmental activities	6,359,691	1,886,924	544,002	563,934
Business type activities:				
Sewer	603,795	743,517	8,854	-0-
HMU - Component unit	15,860,863	13,259,166	80,666	-0-
Total business type activities	16,464,658	14,002,683	89,520	-0-
Total	\$ 22,824,349	\$ 15,889,607	\$ 633,522	\$ 563,934
General receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Debt service				
Hotel / motel tax				
Local option tax				
Unrestricted investment earnings				
Miscellaneous				
Bond proceeds				
Sale of property				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				
Cash Basis Net Assets				
Restricted:				
Expendable:				
Streets				
Debt service				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements), Receipts and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (845,730)	\$ -0-	\$ (845,730)
(307,920)	-0-	(307,920)
(235,494)	-0-	(235,494)
(567,175)	-0-	(567,175)
(144,389)	-0-	(144,389)
(649,844)	-0-	(649,844)
(440,030)	-0-	(440,030)
(174,249)	-0-	(174,249)
(3,364,831)	-0-	(3,364,831)
-0-	148,576	148,576
-0-	(2,521,031)	(2,521,031)
-0-	(2,372,455)	(2,372,455)
(3,364,831)	(2,372,455)	(5,737,286)
1,497,453	-0-	1,497,453
611,180	-0-	611,180
294,326	-0-	294,326
41,768	-0-	41,768
385,651	-0-	385,651
4,762	248	5,010
33,221	202,677	235,898
-0-	10,545,000	10,545,000
26,901	-0-	26,901
418,034	(418,034)	-0-
3,313,296	10,329,891	13,643,187
(51,535)	7,957,436	7,905,901
1,002,570	13,925,134	14,927,704
\$ 951,035	\$ 21,882,570	\$ 22,833,605
66,147	-0-	66,147
2,265	-0-	2,265
882,623	21,882,570	22,765,193
\$ 951,035	\$ 21,882,570	\$ 22,833,605

CITY OF HARLAN

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	General	Special Revenue Road Use Tax	Industrial Park
Receipts:			
Property tax	\$ 1,205,596	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	-0-
Other city tax	45,655	-0-	-0-
Licenses and permits	76,814	-0-	-0-
Use of money and property	73,599	-0-	462
Intergovernmental	321,104	489,968	-0-
Charges for services	444,640	-0-	-0-
Special assessments	2,152	-0-	-0-
Miscellaneous	59,945	-0-	-0-
Total receipts	<u>2,229,505</u>	<u>489,968</u>	<u>462</u>
Disbursements:			
Operating:			
Public safety	875,865	-0-	-0-
Public works	554,395	451,260	-0-
Community and economic development	-0-	-0-	-0-
Culture and recreation	739,025	-0-	-0-
General government	468,309	-0-	-0-
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	<u>2,637,594</u>	<u>451,260</u>	<u>-0-</u>
Excess (deficiency) of receipts over (under) disbursements	(408,089)	38,708	462
Other financing sources (uses):			
Sale of property	375	-0-	-0-
Operating transfers in	717,366	-0-	124,052
Operating transfers out	(73,648)	(2,000)	-0-
Total other financing sources (uses)	<u>644,093</u>	<u>(2,000)</u>	<u>124,052</u>
Net change in cash balances	236,004	36,708	124,514
Cash balances, beginning of year	<u>168,543</u>	<u>29,439</u>	<u>137,744</u>
Cash balances, end of year	\$ <u>404,547</u>	\$ <u>66,147</u>	\$ <u>262,258</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -0-	\$ -0-	\$ -0-
Unreserved:			
General fund	404,547	-0-	-0-
Special revenue funds	-0-	66,147	262,258
Capital projects funds	-0-	-0-	-0-
Total cash basis fund balances	\$ <u>404,547</u>	\$ <u>66,147</u>	\$ <u>262,258</u>

See notes to financial statements.

Special Revenue					
Urban Renewal	Equipment Revolving	Employee Benefits	Debt Service	Other Nonmajor	Total
\$ -0-	\$ -0-	\$ 287,076	\$ 293,490	\$ -0-	\$ 1,786,162
611,180	-0-	-0-	-0-	0-	611,180
-0-	-0-	895	836	385,651	433,037
-0-	-0-	-0-	-0-	-0-	76,814
-0-	-0-	-0-	-0-	73	74,134
-0-	9,257	-0-	-0-	444,056	1,264,385
-0-	5,280	-0-	-0-	-0-	449,920
-0-	-0-	-0-	-0-	1,728	3,880
-0-	13,932	-0-	-0-	123,096	196,973
611,180	28,469	287,971	294,326	954,604	4,896,485
-0-	72,246	-0-	-0-	1,253	949,364
-0-	91,876	-0-	-0-	9,033	1,106,564
232,406	-0-	-0-	-0-	3,088	235,494
-0-	37,361	-0-	-0-	24,053	800,439
-0-	15,435	-0-	-0-	-0-	483,744
-0-	-0-	-0-	649,844	-0-	649,844
-0-	-0-	-0-	-0-	993,567	993,567
232,406	216,918	-0-	649,844	1,030,994	5,219,016
378,774	(188,449)	287,971	(355,518)	(76,390)	(322,531)
-0-	3,926	-0-	-0-	22,600	26,901
37,500	142,520	192,825	345,014	476,742	2,036,019
(468,224)	(8,492)	(685,364)	-0-	(380,257)	(1,617,985)
(430,724)	137,954	(492,539)	345,014	119,085	444,935
(51,950)	(50,495)	(204,568)	(10,504)	42,695	122,404
51,950	412,692	204,568	12,769	(175,484)	842,221
\$ -0-	\$ 362,197	\$ -0-	\$ 2,265	\$ (132,789)	\$ 964,625
\$ -0-	\$ -0-	\$ -0-	\$ 2,265	\$ -0-	\$ 2,265
-0-	-0-	-0-	-0-	-0-	404,547
-0-	362,197	-0-	-0-	54,976	745,578
-0-	-0-	-0-	-0-	(187,765)	(187,765)
\$ -0-	\$ 362,197	\$ -0-	\$ 2,265	\$ (132,789)	\$ 964,625

	Internal Service Funds		
	Flex Benefits	Group Insurance Trust	Total
Operating receipts:			
Use of money and property	\$ -0-	\$ -0-	\$ -0-
Charges for services	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-
Total receipts	-0-	-0-	-0-
Operating disbursements:			
Public safety	-0-	-0-	-0-
Public works	-0-	-0-	-0-
Culture and recreation	-0-	-0-	-0-
General government	-0-	-0-	-0-
Business type activities	-0-	-0-	-0-
Total disbursements	-0-	-0-	-0-
Operating income (loss)	-0-	-0-	-0-
Non-operating receipts (disbursements):			
Interest on investments	-0-	310	310
Reimbursements	8,580	957,846	966,426
Contractual services	(6,428)	(1,134,247)	(1,140,675)
Transfer in	-0-	-0-	-0-
Transfer out	-0-	-0-	-0-
Net non-operating receipts (disbursements)	2,152	(176,091)	(173,939)
Excess (deficiency) of receipts over (under) disbursements	2,152	(176,091)	(173,939)
Cash balances, beginning of year	306	160,043	160,349
Cash balances, end of year	\$ 2,458	\$ (16,048)	\$ (13,590)
Cash Basis Fund Balances			
Unreserved:	2,458	(16,048)	(13,590)
Total fund balance	\$ 2,458	\$ (16,048)	\$ (13,590)

See notes to financial statements.

CITY OF HARLAN

**RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010**

Total governmental funds cash balances (page 13)	\$	964,625
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*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan. The Internal Service Fund is included in governmental activities in the Statement of Activities and Net Assets

(13,590)

Cash basis net assets of governmental activities (page 11)	\$	<div style="display: flex; justify-content: flex-end;"> <div style="border-bottom: 1px solid black; width: 100%;"></div> <div style="text-align: right;">951,035</div> </div>
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Net change in cash balances (page 13)	\$	122,404
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*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan. The change in net assets of the Internal Service Fund is reported with governmental activities.

(173,939)

Change in cash balance of governmental activities (page 11)	\$	<div style="display: flex; justify-content: flex-end;"> <div style="border-bottom: 1px solid black; width: 100%;"></div> <div style="text-align: right;">(51,535)</div> </div>
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CITY OF HARLAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES -
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Enterprise Funds			
	Sewer	Sewer Equipment Replacement	HMU Component Unit	Total
Operating receipts:				
Use of money and property	\$ 248	\$ -0-	\$ 56,510	\$ 56,758
Charges for services	729,491	-0-	13,202,656	13,932,147
Miscellaneous	14,026	202,677	-0-	216,703
Total operating receipts	743,765	202,677	13,259,166	14,205,608
Operating disbursements:				
Business type activities	569,502	34,293	15,860,863	16,464,658
Excess (deficiency) of operating receipts over (under) operating disbursements	174,263	168,384	(2,601,697)	(2,259,050)
Non-operating receipts (disbursements):				
Interest on investments	-0-	8,854	80,666	89,520
Loan proceeds	-0-	-0-	10,545,000	10,545,000
Transfer in	-0-	200,500	-0-	200,500
Transfer out	(210,000)	(408,534)	-0-	(618,534)
Net non-operating receipts (disbursements)	(210,000)	(199,180)	10,625,666	10,216,486
Net change in cash balances	(35,737)	(30,796)	8,023,969	7,957,436
Cash balances, beginning of year	43,326	2,819,028	11,062,780	13,925,134
Cash balances, end of year	\$ 7,589	\$ 2,788,232	\$ 19,086,749	\$ 21,882,570
Cash Basis Fund Balances				
Unreserved				
Total cash basis fund balances	\$ 7,589	\$ 2,788,232	\$ 19,086,749	\$ 21,882,570

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(1) Summary of Significant Accounting Policies

The City of Harlan is a political subdivision of the State of Iowa located in Shelby County. It was first incorporated in 1879 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer utilities for its citizens.

Reporting Entity

For financial reporting purposes the City of Harlan has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits or impose specific financial burdens on the City. The City has one component unit, which meets the Government Accounting Standards Board criteria.

These financial statements present the City of Harlan (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discrete Component Unit - The Harlan Municipal Utilities is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five-member board appointed by the Mayor/City Council and the Utility's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Shelby County Emergency Management Commission, Shelby County Ambulance Commission and The Shelby County Solid Waste Agency Board.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants whose purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax is used to account for road construction and maintenance.

The Urban Renewal Fund is used to account for tax increment financing collections and the repayment of interest financing indebtedness.

The Employee Benefits Fund is used to account for taxes levied for the City's portion of statutory employee benefits such as social security, medicare and retirement contributions.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

The Debt Service Fund accounts for the principal and interest payments on the City's general long-term debt obligations.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sewer Equipment Replacement Fund aggregates funds for future sewer projects.

The City reports former expendable trust funds (pre GASB-34) as other special revenue funds as they do not readily fall into GASB-34 Fiduciary fund categories of pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds or permanent (formerly non-expendable) trust funds.

C. Measurement Focus and Basis of Accounting

The City of Harlan maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. At June 30, 2010, disbursements exceed amounts budgeted in the community and economic development function.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2008, to compute the amounts, which became liens on property on July 1, 2008. These taxes were due and payable in two installments on September 30, 2009 and March 31, 2010. These taxes are recognized as income to the City when they are received from the county.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(2) Deposits

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

For the year ended June 30, 2010, \$3,746,856 was on deposit at local banks as demand deposits and certificates of deposit.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2011	\$ 460,000	\$ 182,290
2012	490,000	167,550
2013	495,000	151,220
2014	345,000	134,040
2015 - 2019	895,000	533,076
2020 - 2024	1,130,000	324,401
2025 - 2027	820,000	71,465
	<u>\$ 4,635,000</u>	<u>\$ 1,564,042</u>

The City has a general obligation debt limit of approximately \$12.3 million which was not exceeded during the year ended June 30, 2010.

The resolutions providing for the issuance of the general obligation debt include the following provisions:

- (a) The levy of taxes sufficient to provide payment of principal and interest when due.
- (b) Proceeds of the tax levy are to be collected in the debt service fund or a special revenue fund of the City, as it is applicable.

The City is in compliance with debt resolutions.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. The City's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$107,325, \$96,525, and \$93,935, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions* during the year ended June 30, 2010.

Plan Description - The City operates a single-employer retiree benefit plan which provides dental, medical and prescription drug benefits for retirees and their spouses. There are 33 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/dental/prescription drug coverage was provided through a self-insured plan with Auxiant through September 30, 2009. Effective October 1, 2009, the City of Harlan switched to a plan with Employee Benefit Systems (EBS), with a 28-E agreement with Iowa Governmental Health Care Plan (IGHCP). Retirees under age 65 pay the same premium for the medical/dental/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$535 for single coverage and \$1,178 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed approximately \$414,100 and plan members eligible for benefits contributed approximately \$33,260 to the plan.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and floating holiday hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 57,297
Compensatory time	33,099
Floating holiday	4,465
	<u>\$ 94,861</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

(7) Self - Insurance Program

The City has established a self-insurance medical program, which is accounted for in the Group Insurance Fund (an internal service fund). This program provides employee health benefit coverage up to maximum of \$40,000 per employee per year. The City purchases commercial insurance for claims in excess of this coverage and all other risks of loss. The City pays all claims and is reimbursed from the re-insurer for excess claims. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

All funds of the City participated in the program and make payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The unpaid claims liability of \$9,442 is based on Government Accounting Standards Board Statement No. 10, which requires that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in unpaid claims are as follows:

Unpaid claims, beginning of year	\$ 143,967
Incurred claims	544,124
Payments	(678,649)
Unpaid claims, end of year	<u>\$ 9,442</u>

**CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(8) Deficit Fund Balances

As of June 30, 2010, the following funds had deficit balances:

<u>Fund</u>	<u>Deficit</u>
Special Revenue:	
Downtown Upper Story & Facade	\$ 1,088
Capital Projects:	
Airport Improvement	142,227
Street Overlay	155,935
Internal Service:	
Group Insurance	16,048
Total	\$ <u>315,298</u>

The material deficit balances were a result of project costs incurred prior to availability of funds. Material deficits will be eliminated upon receipt of grant funds and transfer of funds upon completion of the projects. The deficit balance in the group insurance fund was a result of increased costs of health care coverage.

(9) Risk Management

The City of Harlan is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Urban Renewal

Harlan Urban Renewal Area

The original Harlan Urban Renewal Plan was dated April 1989 and was amended in June 1992, October 1993, March 2000, February 2002, March 2005, November 2006 and April 2008. Areas of the city within the urban renewal area include the Downtown Business District, the C. G. Therkildsen Center, G.H. Christiansen Subdivision, the Wastewater Treatment and the Industrial Park areas.

Laurel Street Urban Renewal Area

The Laurel Street Urban Renewal Area is a stand alone urban renewal plan adopted in March 2005 for residential development at the former Laurel School site.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(11) Tax Increment Financing

The TIF receipts are recorded in the urban renewal fund then expended or transferred as follows:

	<u>2010</u>	<u>2009</u>
Cash balance, beginning of year	\$ 51,950	\$ 37,500
Tax Increment Financing receipts	611,180	517,593
General Fund payback	<u>37,500</u>	<u>37,500</u>
TIF Funds available	700,630	592,593
Legal fees	1,616	4,912
Miscellaneous	5,790	-0-
Economic development	225,000	-0-
Transfers to:		
Debt Service Fund	345,014	291,907
General Fund	25,000	25,500
Sewer Equipment Replacement Fund	500	183,556
Industrial Park Fund	<u>97,710</u>	<u>34,768</u>
Total expenditures	700,630	540,643
Cash balance, end of year	\$ <u>-0-</u>	\$ <u>51,950</u>

In 2001, the City entered into 28E Agreements with Shelby County and the Harlan Community School District to remit a portion of TIF funds based on formula to both Shelby County and the Harlan Community School District for capital improvements and economic development, respectively. During the fiscal year ended June 30, 2005, the State Auditor's Office questioned the 28E Agreements with the county and the school district on the grounds that the TIF funds may not be expended by the county and the school district except in urban renewal areas of the City. The State Auditor's Office also questioned the City's compliance with Chapter 403 of the Code of Iowa (Urban Renewal and Tax Increment Financing) and recommended the City consult with legal counsel to ensure compliance with provisions of Chapter 403 and the City's Urban Renewal Plan.

In November 2005, as a result of the State Auditor's inquiry and recommendation by legal counsel, the City Council voted to terminate participation in the 28E Agreements with both Shelby County and the Harlan Community School District effective July 1, 2006. In addition, the City's General Fund will pay back the TIF funds it transferred to the General Fund for fiscal years 2004, 2005 and 2006. The \$300,000 payback will be appropriated for fiscal years 2007 through 2014. For the year ended June 30, 2010, the General Fund reimbursed the Urban Renewal Fund \$37,500. \$187,500 remains outstanding.

Transfers to the sewer equipment replacement fund represent repayment of funds that were expended in prior years for sewer infrastructure in urban renewal areas. For the year ended June 30, 2010, the Urban Renewal Fund transferred \$500 to the Sewer Equipment Replacement Fund.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(12) Related Party Transactions

Business transactions between the City and City officials totaled \$955 for the year ended June 30, 2010.

(13) Budget Over-expenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2010, disbursements in the community and economic development function exceeded the amounts budgeted.

(14) Grants

Iowa West Foundation

In January 2007, the City of Harlan was awarded a \$200,000 grant from the Iowa West Foundation for development of College Park Plaza. The grant required a 50/50 match from the City. As of June 30, 2010, all grant funds had been received.

STEP Grants

For the year ended June 30, 2010, the Harlan Police Department was awarded a \$8,325 grant for in car video cameras and a \$932 grant for bullet proof vests from the Iowa Department of Public Safety.

Surface Transportation Program Grant

On February 14, 2008, the City was awarded a \$1 million Surface Transportation Program Grant through the Iowa Department of Transportation for the resurfacing of various streets in the City of Harlan. For the year ended June 30, 2010, \$935,922 of the grant funds had been received. \$64,078 of the remaining grant funds will be received in fiscal year 2011.

Federal Aviation Administration Grant

In 2009, the Harlan Municipal Airport was awarded a \$651,085 Airport Improvement Grant from the Federal Aviation Administration. The matching grant required a 5% or \$128,850 local match. For the year ended June 30, 2010, the City had received all grant funds.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(15) Commitments

Harlan Country Club Estates

In September 1999, the City entered into an agreement with Harlan Country Club Estates, Inc. for the construction of road infrastructure in a residential development area. Under the terms of the agreement, the City agrees to pay \$15,100 per housing unit. There are 25 units and the City remains obligated for 8 infrastructure payments as of June 30, 2010.

Ambulance Commission of Shelby County

On March 7, 2005, the City entered into a joint voluntary undertaking with Myrtue Memorial Hospital for the formation of the Ambulance Commission of Shelby County, as authorized by Chapter 28E of the 2005 Code of Iowa. The commencement date of the joint undertaking was July 1, 2006. The city administrator and an appointed individual serve on the five-member board of directors. The Ambulance Commission was established to provide ambulance services to the citizens of Harlan and Shelby County, Iowa. The agreement commits the City of Harlan to contribute 33-1/3% of the total cost of providing ambulance service to Shelby County. For the year ended June 30, 2010, the City contributed \$33,000.

E911 Communications Center Services

On August 7, 2001, the City contracted with Shelby County to provide E911 communications services through the Shelby County Emergency Management Commission for Harlan beginning July 1, 2001 and ending June 30, 2006. The communications services provided to Harlan during this period included dispatching, answering phones for the Harlan Police Department on night and weekends, MCIC access, city alarm monitoring and radio log maintenance and reports. After June 30, 2006, the parties will continue this contract on a year to year basis.

Agreement for GIS Services

In July 2003, the City of Harlan, Harlan Municipal Utilities and Shelby County entered into an agreement for the exchange and distribution of Geographic Information System (GIS) data. Shelby County developed a digital graphic and tabular database depicting land and cadastral data. This agreement is renewed annually and stipulates an annual fee of \$15,000. For the year ended June 30, 2010, the City contributed \$15,000 to Shelby County for GIS services.

Performance Agreement - CiDirect, Inc.

On December 1, 2006, the City entered into a refundable conditional grant agreement with CiDirect, Inc. for the formation and maintenance of at least eighty-six new full-time jobs for five years. The refundable conditional grant amount is \$129,000 and obligates CiDirect, Inc. to refund the grant or portion of the grant with interest in the event of default.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(15) Commitments (Continued)

Performance Agreement - Variety Distributors, Inc.

On February 19, 2008, the City entered into a forgivable loan agreement with Variety Distributors, Inc. as an incentive to create at least sixty full time equivalent jobs in the community and maintain them over a five year period. The \$60,000 forgivable loan bears interest at 7% and matures on March 1, 2013. The debt will be forgiven upon satisfaction of the terms of the agreement.

Performance Agreement - Superior Midwest Foods, LLC

On October 15, 2008, the City entered into a forgivable loan agreement with Superior Midwest Foods, Inc. as an incentive to maintain eleven full time equivalent jobs through December 31, 2016 and create and maintain another nineteen full time equivalent jobs for five years by December 31, 2016. The \$16,800 forgivable loan bears interest at 7% and matures on December 31, 2016. The debt will be forgiven upon satisfaction of the terms of the agreement.

G.H. Christiansen Subdivision

In May 2007, the City began infrastructure development on a forty-acre tract of land in north Harlan. The \$2.5 million project will provide 79 single and multi-family housing lots. The grading, street development and installation of gas, water, electric, phone, fiber optics and sewer lines were completed by 2010. For the year ended June 30, 2010, the City expended \$45,085 for the low to moderate income housing subdivision. The City has contracted for the construction of the first house on Lot 6 of the subdivision.

Petersen Family Wellness Center

On January 22, 2008, the City committed \$500,000 in eligible tax increment financing funds to the construction of a community wellness center. The first of five payments of \$100,000 was made during the year ended June 30, 2010.

Shelby County DevelopSource

On March 4, 2008, the City committed \$25,000 to Shelby County DevelopSource for fiscal years 2010, 2011, and 2012. The organization promotes and coordinates economic development and monitors the City's performance agreements with CiDirect, Variety Distributors, and Superior Midwest Foods, LLC.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

(15) Commitments (Continued)

College Park Plaza

On September 4, 2007, The City and Iowa Western Community College entered into a 28E Agreement, as authorized by Chapter 28E of the 2005 Code of Iowa, for the construction of an IWCC campus on City owned property. The satellite campus provides classrooms for IWCC and an information technology center as well as other facilities that promote the economic development of the community.

On June 3, 2008, the Harlan Industrial Foundation committed \$625,000 to the College Park construction project and the City agreed to reimburse the Foundation \$125,000 in TIF eligible funds in five equal payments due July 1, 2009 through 2013. There are no fees or interest costs to the City. For the year ended June 30, 2010, the City reimbursed the Foundation the first of five \$125,000 payments.

Affordable Housing Program

In January 2010, the City was awarded a \$50,000 grant from the Iowa Finance Authority for the construction of a house in the G.H. Christiansen Subdivision. The grant required a local match and is an eligible tax increment financing expenditure for low to moderate income family housing. On June 15, 2010, the City awarded a \$129,748 contract to Knudsen Construction for the project.

Downtown Façade and New Residential Rehabilitation Program

On April 20, 2010, the City appropriated up to \$60,000 for the residential rehabilitation project and \$40,000 for the facade beautification, awning or enhancement project for use by qualified property owners on the square of downtown Harlan. The City will provide up to \$15,000 to property owners for new, one-time residential improvements to existing buildings or the City will provide up to \$5,000 for a facade, attached enhancements (exterior staircases or railings), or awnings on the square of downtown Harlan. As of June 30, 2010, six grants were approved for the upper story residential and two grants for the building facade projects.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARLAN

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2010

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Property tax	\$ 1,786,162	\$ -0-
Tax increment financing	611,180	-0-
Other city tax	433,037	-0-
Licenses and permits	76,814	-0-
Use of money and property	74,134	146,278
Intergovernmental	1,264,385	-0-
Charges for services	449,920	13,932,147
Special assessments	3,880	-0-
Miscellaneous	196,973	216,703
Total receipts	<u>4,896,485</u>	<u>14,295,128</u>
Disbursements:		
Public safety	949,364	-0-
Public works	1,106,564	-0-
Community and economic development	235,494	-0-
Culture and recreation	800,439	-0-
General government	483,744	-0-
Debt service	649,844	-0-
Capital projects	993,567	-0-
Business type	-0-	16,464,658
Nonprogram	173,939	-0-
Total disbursements	<u>5,392,955</u>	<u>16,464,658</u>
Excess (deficiency) of receipts over (under) disbursements	(496,470)	(2,169,530)
Other financing sources, net	<u>444,935</u>	<u>10,126,966</u>
Excess (deficiency) of receipts and other financing sources	(51,535)	7,957,436
Balance beginning of year	<u>1,002,570</u>	<u>13,925,134</u>
Balance end of year	\$ <u>951,035</u>	\$ <u>21,882,570</u>

See Accompanying Independent Auditor's Report

Total		Budgeted Amounts		Final to Total Variance
		Original	Final	
\$	1,786,162	\$ 1,739,396	\$ 1,739,396	\$ 46,766
	611,180	619,648	619,648	(8,468)
	433,037	443,880	443,880	(10,843)
	76,814	19,200	19,200	57,614
	220,412	159,930	159,930	60,482
	1,264,385	793,348	1,547,130	(282,745)
	14,382,067	18,299,164	18,299,164	(3,917,097)
	3,880	-0-	-0-	3,880
	413,676	70,580	921,422	(507,746)
	<u>19,191,613</u>	<u>22,145,146</u>	<u>23,749,770</u>	<u>(4,558,157)</u>
	949,364	958,449	995,765	46,401
	1,106,564	1,065,595	1,139,195	32,631
	235,494	228,058	233,000	(2,494)
	800,439	834,718	878,263	77,824
	483,744	489,479	526,066	42,322
	649,844	651,583	1,301,427	651,583
	993,567	52,142	1,213,390	219,823
	16,464,658	23,423,159	18,433,477	1,968,819
	173,939	-0-	-0-	(173,939)
	<u>21,857,613</u>	<u>27,703,183</u>	<u>24,720,583</u>	<u>2,862,970</u>
	(2,666,000)	(5,558,037)	(970,813)	(1,695,187)
	<u>10,571,901</u>	<u>8,335,000</u>	<u>8,335,000</u>	<u>2,236,901</u>
	7,905,901	2,776,963	7,364,187	541,714
	<u>14,927,704</u>	<u>14,927,704</u>	<u>14,927,704</u>	<u>-0-</u>
\$	<u>22,833,605</u>	\$ <u>17,704,667</u>	\$ <u>22,291,891</u>	\$ <u>541,714</u>

CITY OF HARLAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The budget was amended on May 7, 2010, decreasing budgeted disbursements by \$2,982,600. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceed the amounts budgeted in the community and economic development function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HARLAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2010

	Special Revenue							Other Spec Rev Funds
	Local Option	Upper Story Facade	GHC Subdivision	Housing Rehab	Library Trust	Fire Grant	Beebe Trust	
Receipts:								
Property tax	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	-0-
Tax increment financing	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Other City tax	385,651	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Use of money and property	-0-	-0-	-0-	-0-	3,217	-0-	73	-0-
Intergovernmental	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Charges for services	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-	-0-	10,397	-0-	-0-	-0-
Total receipts	385,651	-0-	-0-	-0-	13,614	-0-	73	-0-
Disbursements:								
Operating:								
Public safety	-0-	-0-	-0-	-0-	-0-	-0-	-0-	1,253
Public works	9,033	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Comm and econ development	-0-	1,088	2,000	-0-	-0-	-0-	-0-	-0-
Culture and recreation	6,917	-0-	-0-	-0-	12,084	-0-	5,000	52
General government	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total disbursements	15,950	1,088	2,000	-0-	12,084	-0-	5,000	1,305
Excess (deficiency) of receipts over (under) disbursements	369,701	(1,088)	(2,000)	-0-	1,530	-0-	(4,927)	(1,305)

See accompanying independent auditor's report.

SCHEDULE 1

	Capital Projects						
	College Plaza	Street Overlay	Airport Improve	Dye Street	Sewer Rehab	Other Capital Projects	Total
Receipts: (Continued)							
Property tax	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Other City tax	-0-	-0-	-0-	-0-	-0-	-0-	385,651
Use of money and property	-0-	-0-	-0-	-0-	-0-	-0-	73
Intergovernmental	-0-	66,618	374,221	-0-	-0-	-0-	444,056
Charges for services	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Special assessments	-0-	1,728	-0-	-0-	-0-	-0-	1,728
Miscellaneous	112,699	-0-	-0-	-0-	-0-	-0-	123,096
Total receipts	112,699	68,346	374,221	-0-	-0-	-0-	954,604
Disbursements:							
Operating:							
Public safety	-0-	-0-	-0-	-0-	-0-	-0-	1,253
Public works	-0-	-0-	-0-	-0-	-0-	-0-	9,033
Comm and econ development	-0-	-0-	-0-	-0-	-0-	-0-	3,088
Culture and recreation	-0-	-0-	-0-	-0-	-0-	-0-	24,053
General government	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Capital projects	72,580	168,535	449,251	45,085	246,716	11,400	993,567
Total disbursements	72,580	168,535	449,251	45,085	246,716	11,400	1,030,994
Excess (deficiency) of receipts over (under) disbursements	40,119	(100,189)	(75,030)	(45,085)	(246,716)	(11,400)	(76,390)

	Special Revenue							Other
	Local Option	Upper Story Facade	GHC Subdivision	Housing Rehab	Library Trust	Fire Grant	Beebe Trust	Spec Rev Funds
Excess (deficiency) of receipts over (under) disbursements	369,701	(1,088)	(2,000)	-0-	1,530	-0-	(4,927)	(1,305)
Other financing sources (uses):								
Sale of property	-0-	-0-	22,600	-0-	-0-	3,802	-0-	-0-
Transfers in	-0-	-0-	-0-	2,603	-0-	-0-	-0-	-0-
Transfers out	(333,512)	-0-	-0-	-0-	-0-	-0-	-0-	(2,409)
	(333,512)	-0-	22,600	2,603	-0-	3,802	-0-	(2,409)
Net change in cash balances	36,189	(1,088)	20,600	2,603	1,530	3,802	(4,927)	(3,714)
Cash balances beginning of year	(36,189)	-0-	-0-	(2,603)	16,089	(3,802)	15,922	10,564
Cash balances end of year	\$ -0-	\$ (1,088)	\$ 20,600	\$ -0-	\$ 17,619	\$ -0-	\$ 10,995	\$ 6,850
Cash Basis Fund Balances								
Unreserved:								
Special revenue funds	\$ -0-	\$ (1,088)	\$ 20,600	\$ -0-	\$ 17,619	\$ -0-	\$ 10,995	\$ 6,850
Capital projects funds	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total cash basis fund balances	\$ -0-	\$ (1,088)	\$ 20,600	\$ -0-	\$ 17,619	\$ -0-	\$ 10,995	\$ 6,850

See accompanying independent auditor's report

SCHEDULE 1 (Cont'd)

	Capital Projects						Other
	College Plaza	Street Overlay	Airport Improve	Dye Street	Sewer Rehab	Capital Projects	Total
Excess (deficiency) of receipts over (under) disbursements	40,119	(100,189)	(75,030)	(45,085)	(246,716)	(11,400)	(76,390)
Other financing sources (uses):							
Sale of property	-0-	-0-	-0-	-0-	-0-	-0-	22,600
Transfers in	-0-	56,256	-0-	-0-	397,134	16,947	476,742
Transfers out	-0-	-0-	-0-	-0-	-0-	(44,336)	(380,257)
	-0-	56,256	-0-	-0-	397,134	(27,389)	119,085
Net change in cash balances	40,119	(43,933)	(75,030)	(45,085)	150,418	(38,789)	42,695
Cash balances beginning of year	(18,628)	(112,002)	(67,197)	133,934	(150,418)	38,846	(175,484)
Cash balances end of year	\$ 21,491	\$ (155,935)	\$ (142,227)	\$ 88,849	\$ -0-	\$ 57	\$ (132,789)
Cash Basis Fund Balances							
Unreserved:							
Special revenue funds	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 54,976
Capital projects funds	21,491	(155,935)	(142,227)	88,849	-0-	57	(187,765)
Total cash basis fund balances	\$ 21,491	\$ (155,935)	\$ (142,227)	\$ 88,849	\$ -0-	\$ 57	\$ (132,789)

CITY OF HARLAN

STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES -
OTHER CAPITAL PROJECTS FUNDS

YEAR ENDED JUNE 30, 2010

	Knudsen	Fire Station	Sewer Plant	Harlan Plaza	Library Build	Down Town	Skate / Soccer	Total
Receipts:								
Property tax	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Other City tax	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Use of money and property	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Intergovernmental	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Charges for services	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total receipts	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Disbursements:								
Operating:								
Public safety	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Public works	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Culture and recreation	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
General government	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Debt Service	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	11,400	-0-	-0-	-0-	-0-	11,400
Total disbursements	-0-	-0-	11,400	-0-	-0-	-0-	-0-	11,400

	Knudsen	Fire Station	Sewer Plant	Harlan Plaza	Library Build	Down- Town	Skate / Soccer	Total
Excess (deficiency) of receipts Over (under) disbursements	-0-	-0-	(11,400)	-0-	-0-	-0-	-0-	(11,400)
Other financing sources (uses):								
Transfers in	-0-	4,690	11,400	857	-0-	-0-	-0-	16,947
Transfers out	(26,343)	-0-	-0-	-0-	-0-	(16,069)	(1,924)	(44,336)
	(26,343)	4,690	11,400	857	-0-	(16,069)	(1,924)	(27,389)
Net change in cash balances	(26,343)	4,690	-0-	857		(16,069)	(1,924)	(38,789)
Cash balances beginning of year	26,343	(4,690)	-0-	(857)	57	16,069	1,924	38,846
Cash balances end of year	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 57	\$ -0-	\$ -0-	\$ 57
Cash Basis Fund Balances								
Capital Projects Funds	-0-	-0-	-0-	-0-	57	-0-	-0-	57
Total cash basis fund balances	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 57	\$ -0-	\$ -0-	\$ 57

See accompanying independent auditor's report.

CITY OF HARLAN
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2010

	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due
	Jan 1, 2004	1.50 - 3.60%	\$ 1,770,000	\$ 825,000	\$ -0-	\$ 200,000	\$ 625,000	\$ 27,290	\$ 1,774
	Mar 16, 2009	1.80 - 2.60%	530,000	530,000	-0-	95,000	435,000	14,174	835
	Aug 7, 2007	4.00 - 4.30%	3,815,000	3,730,000	-0-	155,000	3,575,000	157,180	12,582
			\$ 5,085,000	\$ 5,085,000	\$ -0-	\$ 450,000	\$ 4,635,000	\$ 198,644	\$ 15,191

Obligation

General Obligation Bonds:

Refinancing Capital Note
Refunding Bonds
Combined Issue

See Accompanying Independent Auditor's Report.

SCHEDULE 4

**CITY OF HARLAN
BOND AND NOTE MATURITIES
JUNE 30, 2010**

General Obligation Bonds and Note

Refinancing
Capital Loan Note
Issued Jan 1, 2004

Combined Issue
Callable June 30, 2015
Issued July 10, 2007

Combined Issue
Issued Mar 16, 2009

Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2011	3.20%	\$ 195,000	4.00%	\$ 160,000	2.00%	\$ 105,000	460,000
2012	3.40%	215,000	4.00%	165,000	2.20%	110,000	490,000
2013	3.60%	215,000	4.00%	170,000	2.40%	110,000	495,000
2014	--	-0-	4.25%	235,000	2.60%	110,000	345,000
2015	--	-0-	4.25%	165,000	--	-0-	165,000
2016	--	-0-	4.25%	170,000	--	-0-	170,000
2017	--	-0-	4.25%	180,000	--	-0-	180,000
2018	--	-0-	4.25%	185,000	--	-0-	185,000
2019	--	-0-	4.25%	195,000	--	-0-	195,000
2020	--	-0-	4.25%	205,000	--	-0-	205,000
2021	--	-0-	4.25%	215,000	--	-0-	215,000
2022	--	-0-	4.25%	225,000	--	-0-	225,000
2023	--	-0-	4.25%	235,000	--	-0-	235,000
2024	--	-0-	4.25%	250,000	--	-0-	250,000
2025	--	-0-	4.25%	260,000	--	-0-	260,000
2026	--	-0-	4.30%	275,000	--	-0-	275,000
2027	--	-0-	4.30%	285,000	--	-0-	285,000
		<u>\$ 625,000</u>		<u>\$ 3,575,000</u>		<u>\$ 435,000</u>	<u>\$ 4,635,000</u>

See Accompanying Independent Auditor's Report.

CITY OF HARLAN
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

FOR THE LAST SEVEN YEARS

Receipts:	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Property tax	\$ 1,786,162	\$ 1,722,090	\$ 1,616,821	\$ 1,490,434
Tax increment financing collections	611,180	517,593	493,868	746,189
Other city tax	433,037	448,915	444,541	348,062
Licenses and permits	76,814	70,919	74,021	62,066
Use of money and property	74,134	78,176	161,454	116,655
Intergovernmental	1,264,385	2,004,457	1,176,419	853,006
Charges for service	449,920	534,851	440,585	412,506
Special assessments	3,880	7,122	5,404	14,435
Miscellaneous	196,973	424,176	168,180	204,896
Bond proceeds	-0-	528,410	3,778,211	-0-
Sale of property	26,901	9,932	110,939	-0-
Total	\$ <u>4,923,386</u>	\$ <u>6,346,641</u>	\$ <u>8,470,443</u>	\$ <u>4,248,249</u>
Disbursements:				
Operating:				
Public safety	\$ 949,364	\$ 983,002	\$ 1,043,969	\$ 1,281,470
Public works	1,106,564	1,132,733	1,119,022	800,153
Culture and recreation	235,494	833,871	811,031	720,360
Community and economic dev	800,439	211,368	359,763	361,077
General government	483,744	465,307	466,907	389,961
Debt service	649,844	1,124,564	633,710	488,448
Capital projects	993,567	2,947,130	2,274,980	544,516
Total	\$ <u>5,219,016</u>	\$ <u>7,697,975</u>	\$ <u>6,709,382</u>	\$ <u>4,585,985</u>

SCHEDULE 5

	<u>2006</u>		<u>2005</u>		<u>2004</u>
\$	1,369,632	\$	1,404,035	\$	1,461,570
	1,199,550		1,091,014		980,614
	294,368		22,641		16,371
	65,371		60,021		54,195
	106,389		88,450		78,525
	1,381,898		965,230		1,667,288
	402,974		351,277		371,945
	977		4,186		7,535
	156,695		284,384		497,532
	-0-		-0-		-0-
	-0-		-0-		-0-
\$	<u>4,977,854</u>	\$	<u>4,271,238</u>	\$	<u>5,135,575</u>

\$	1,084,826	\$	733,141	\$	688,146
	756,129		818,117		832,249
	727,450		677,455		573,477
	377,533		-0-		570,820
	294,416		861,968		395,676
	512,095		494,018		499,108
	989,072		1,612,417		1,874,477
\$	<u>4,741,521</u>	\$	<u>5,197,116</u>	\$	<u>5,433,953</u>

See Accompanying Independent Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

September 2, 2010

Lonnie G. Muxfeldt
Certified Public
Accountant

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated September 2, 2010. My report expressed unqualified opinions on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Harlan's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Harlan's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Harlan's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Continued . . .

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Iowa Society of CPA's and AICPA Private Companies Practice Section

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Harlan's financial statements will not be prevented or detected and corrected on a timely basis. I did not note any deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I did not note any deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

Compliance and Other Matters

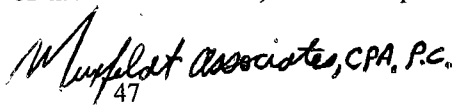
As part of obtaining reasonable assurance about whether the City of Harlan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Harlan's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the City's responses, I did not audit the City of Harlan's responses and accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Harlan and other parties to whom the City of Harlan may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Harlan during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.


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**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) The audit did not disclose any significant deficiencies or material weaknesses in internal control over financial reporting.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Other Findings Related to Statutory Reporting:

III-A-10 Certified Budget - For the year ended June 30, 2010, disbursements in the community and economic development function exceeded the amounts budgeted. In addition, the final amended budget as approved was not the amended budget that was intended. The amended budget increased debt service expenditures by \$649,844 rather than decreasing debt service expenditures by \$1,739.

Recommendation - The budget should be monitored more closely at the functional level and amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa.

Response - The budget will be monitored and amended correctly in the future.

Conclusion - Response accepted.

CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part III: Other Findings Related to Statutory Reporting: (Continued)

III-B-10 Questionable Disbursements - I did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1970. However, I did note instances in which documentation was not available to substantiate training, travel, and conference reimbursements.

Recommendation - The City should review procedures to insure that all training, travel, and conference reimbursements are properly substantiated.

Response - We will review our policy and procedures.

Conclusion - Response accepted.

III-C-10 Travel Expense

No disbursements of city money for travel expense of spouses of city officials or employees were noted.

III-D-10 Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business connection	Transaction Description	Amount
Jay Christensen, P & Z Board, Owner Dr. Jay's Eyecare	Employee benefits	\$ 955

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council and Planning and Zoning Board Members do not appear to represent a conflict of interest since total transactions with each individual were less than \$1,500 during the year.

III-E-10 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to insure adequate coverage for current operations.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

Part IV: Other Findings Related to Statutory Reporting: (Continued)

III-F-10 Council Minutes

No transactions were found that I believe should have been approved in the Council minutes but were not.

III-G-10 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted. It was noted, however, that the maximum balance at a local named depository was exceeded during two months of the year ended June 30, 2010.

Recommendation - The City should raise its maximum balance in sufficient amount so as not to exceed the maximum balance.

Response - Resolution 1569, Resolution Naming Depositories, was dated April 5, 2005 and needs to be updated and the maximum balances sufficiently raised.

Conclusion - Response accepted.

III-H-10 Revenue Notes

The City has no revenue debt at June 30, 2010.

III-I-10 Payment of General Obligation Bonds

General Obligation Bonds were paid from the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

III-J-10 Financial Condition - The following Funds had deficit balances as of June 30, 2010:

<u>Fund</u>		<u>Deficit</u>
Special Revenue - Upper Story / Facade	\$	1,088
Capital Projects - Airport Improvement		142,227
Capital Projects - Street Overlay		155,935
Internal Service - Group Insurance		16,048
Total	\$	<u>315,298</u>

Recommendation - The City should monitor these deficits in order to return these funds to a sound financial position.

Response - The deficits will be eliminated upon the receipt of grants and the completion of the projects. The group insurance deficit will be eliminated by transfer.

Conclusion - Response accepted.

CITY OF HARLAN
HARLAN, IOWA 51537

NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Harlan, Iowa.

The City's receipts totaled \$6,845,418 for the year ended June 30, 2010 an 18 percent decrease from 2009. The receipts included \$1,791,779 in property tax, \$611,180 from tax increment financing, \$2,630,441 from charges for services, \$552,856 from operating grants, contributions and restricted interest, \$563,934 from capital grants, contributions and restricted interest, \$5,010 from unrestricted investment earnings, and \$690,218 from other general receipts.

Disbursements for the year totaled \$6,963,486 a 25 percent decrease from 2009, which included \$1,106,564 for public works, \$993,567 for capital projects, and \$949,364 for public safety,. Also, disbursements for business type activities totaled \$603,795.

A copy of the audit report is available for review in the City Clerk's office, in the office of the Auditor of State and on the Auditor of State's website at [http:// auditor.iowa.gov / reports / reports.htm](http://auditor.iowa.gov/reports/reports.htm).

